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OIL AND GAS LEASE
Suzanne Henderson

This **OIL AND GAS LEASE** ("LEASE"), dated as of the 18 day of June, 2009 (the "Effective Date"), by and between **TEXACO DOWNSTREAM LLC**, a Delaware limited liability company ("Lessor"), and **CARRIZO OIL & GAS, INC.**, 1000 Louisiana Street, Suite 1500, Houston, Texas 77002 ("Lessee").

RECITALS

- A. Lessor is the owner of certain lands in Tarrant County, Texas, described in Exhibit A ("the Land"), and desires to lease to Lessee certain interests in the Land.
- B. Lessee desires to lease from Lessor certain interests in the Land for the purpose of investigating, exploring, drilling, producing, saving, taking, owning, transporting, marketing, storing, handling and treating oil and gas.
- C. The Parties wish to define their respective rights and obligations with respect to the lease of certain interests owned by Lessor in the Land.
- D. In consideration of the agreements of Lessee set forth in this Lease, the mutual promises set out in this Lease, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree to be bound by the terms of this Lease.

AGREEMENT

1. DEFINITIONS, INTERPRETATION AND EXHIBITS

- 1.1 **Definitions.** As used in this Lease, these words or expressions have the following meanings:

"Affiliate" means any legal entity which controls, is controlled by, or is under common control with, another legal entity. An entity is deemed to "control" another if it owns directly or indirectly at least fifty percent of either of the following:

- (A) The shares entitled to vote at a general election of directors of such other entity.
- (B) The voting interest in such other entity if such entity does not have either shares or directors.

"Claim" means any claim, liability, loss, demand, damages, Lien, cause of action of any kind, obligation, costs, judgment, interest and award (including recoverable legal counsel fees and costs of litigation of the Person asserting the Claim), whether arising by law, contract, tort, voluntary settlement or otherwise.

"Dispute" means any dispute or controversy arising out of this Lease, including a dispute or controversy regarding the existence, construction, validity, interpretation, enforceability, termination or breach of this Lease.

"Drilling Operations" means drilling operations, plugging back operations, side track and deepening operations with a drilling or workover rig capable of conducting these operations.

3
“Force Majeure Event” has the meaning set forth in Section 10.1

“Land” means the land described in Exhibit A.

“Leased Substances” means oil, gas, casinghead gas, gas condensate, associated sulfur, and all other liquid, liquefiable, or gaseous hydrocarbons and other marketable substances produced with any of them.

“Lien” means charge, encumbrance or similar right available to creditors at law to secure debts owed to them.

“Oil and Gas Rights” means those certain fee minerals owned by Lessor in the Lands as described in Exhibit A.

“Party” means Lessor or Lessee and “Parties” mean both of them.

“Person” means an individual, corporation, company, state, statutory corporation, partnership, trust, unincorporated organization, association, government entity or any other legal entity.

“Production in Paying Quantities” and “Paying Quantities” means a well that has produced for (A) at least thirty consecutive days after the date of completion of the production test for official potential test or completion report purposes and (B) in production in quantities sufficient to yield a return to the holders of the working interest excluding severance taxes, in excess of operating and equipping expenses and costs (including overhead and depreciation of assets), excluding drilling, testing, completion, or reworking costs, or (C) unless, in Lessor’s opinion it has clearly demonstrated a capacity to do so. The review period for purposes of determining whether production is in Paying Quantities shall be 270 consecutive days. There shall be no review period where production ceases. Production in less than Paying Quantities shall never be considered production for purposes of this Lease.

“Primary Term” means a period of Three (3) years from the Effective Date.

“Property” of a Person means property owned, leased or furnished by that Person or in which that Person has an economic interest.

“Records” means information in any recorded form, whether electronic or otherwise, including books, papers, documents, contracts, financial accounts, ledgers, recordings, purchase orders, invoices, vouchers, receipts, manifests, correspondence, memoranda, instructions, plans, drawings, personnel records, timesheets, payroll records, inspection records, registers, statements, reports, written and other information on procedures and controls, computer data and other data.

“Recompletion Operations” shall mean prompt and diligent plug back from an existing zone and recompletion attempt in another zone in the same wellbore in good faith and with reasonable diligence working toward the re-establishment of production of oil or gas in Paying Quantities from such new zone.

“Retained Tract” means either of the following:

- (A) Land that is located in a drilling, spacing, pooled unit, or proration unit established in accordance with applicable rules of the regulatory authority having jurisdiction, on which there is a well producing or capable of producing Leased Substances in Paying Quantities.
- (B) If no drilling, spacing or proration rules or pooled units are applicable, then any of the following, as nearly as possible in the shape of a square with the well situated in the center:
 - (1) 40 acre tract surrounding each well producing or capable of producing oil in Paying Quantities.
 - (2) 320 acre tract surrounding each well producing or capable of producing gas in Paying Quantities from depths from the surface down to 10,000 feet beneath the surface of the ground.
 - (3) 640 acre tract surrounding each well producing or capable of producing gas in Paying Quantities from depths below 10,000 feet beneath the surface of the ground.

“Reworking Operations” means work performed on a well after its completion, in an effort to secure production in Paying Quantities where there has been none, restore production in Paying Quantities that has ceased, or increase production in Paying Quantities, and requires either of the following:

- (A) Prompt and diligent repair of a mechanical breakdown of a well producing in Paying Quantities.
- (B) Actual re-entry into an existing wellbore with a drilling or workover rig capable of reworking of a well capable of producing or previously producing in Paying Quantities.

Reworking Operations also must be timely conducted in good faith and with reasonable diligence working toward the establishment of production of Leased Substances in Paying Quantities, or the re-establishment or enhancement of production of Leased Substances in Paying Quantities from such previously producing zone or zones.

“Shut-In Gas Well Payment” has the meaning set forth in Section 5 below.

1.2 Interpretation. Unless the context clearly requires otherwise, all of the following apply to the interpretation of this Lease:

- (A) The plural and singular numbers each include the other.
- (B) The masculine, feminine and neuter genders each include the others.
- (C) The word “or” is not exclusive.
- (D) The word “includes” and “including” are not limiting.
- (E) References to matters “arising” (or which “arise” or “arises”) “out of this Lease” include matters which arise in connection with this Lease or have a causal

connection with or which flow from this Lease or which would not have arisen or occurred but for the entering into this Lease or the performance of or failure to perform obligations under this Lease.

- (F) An accounting term not otherwise defined has the meaning assigned to it in accordance with Generally Accepted Accounting Principles ("GAAP").
- (G) The headings in this Lease are included for convenience and do not affect the construction or interpretation of any provision of, or the rights or obligations of a Party under, this Lease.
- (H) If a conflict exists between any provisions of this Lease as they apply to Lessee, the provision that imposes the more onerous obligation on Lessee prevails to the extent of the conflict.

1.3 Exhibits.

- (A) All of the Exhibits that are attached to the body of this Lease are an integral part of this Lease and are incorporated by reference into this Lease, including:
 - (1) Exhibit A -- Description of Oil and Gas Rights and Land.
 - (2) Exhibit B -- Well Information.
 - (3) Exhibit C - Environmental Stipulations.
- (B) If a conflict exists between the body of this Lease and the Exhibits, the body prevails to the extent of the conflict.
- (C) If a conflict exists between the Exhibits or within an Exhibit as they apply to Lessee, the provision that imposes the more onerous obligation on Lessee prevails to the extent of the conflict.

2. GRANT

- 2.1 Lessor leases to Lessee, all of Lessor's right, title and interest in the Oil and Gas Rights in the Land, for the purpose of investigating, exploring, drilling, producing, saving, taking, owning, transporting, marketing, storing, handling and treating Leased Substances together with all rights, privileges and easements necessary for Lessee's operations on the Land pursuant to the terms of this Lease, including but not limited to the right to lay pipelines, build roads, construct tanks, pump stations, power stations, power and communication lines, and build other structures and facilities necessary for Lessee's oil and gas operations on the Land.
- 2.2 This Lease includes all leased substances underlying lakes, streams, roads, streets, alleys, easements and rights-of-way that traverse or adjoin the Land, including all lands owned or claimed by Lessor as a part of any tract described in Exhibit "A", and containing 1.773 acres, more or less. For the purpose of calculating any payments based on acreage, Lessee, at its option, may act as if the Land contains the acreage above stated, whether it actually contains more or less. Lessee may inject water, gas or other substances into any zone or stratum underlying the Land that is not productive of fresh water.

- 2.3 Lessor does not warrant either express or implied title to the Land. Lessee will furnish Lessor with copies of all title information (including but not limited to title opinions and curative material) obtained by Lessee pertaining to the Land, within ten (10) days after Lessee's receipt of same. However, Lessee agrees that nothing in this Section or the furnishing of title opinions and curative material shall be construed as a waiver by Lessor of the attorney-client privilege as to particular documents or subject matter.

3. TERM

- 3.1 Except as otherwise provided in this Lease, this Lease will remain in force for the Primary Term, and thereafter so long as Leased Substances or any one or more of them are being produced from the Land in Paying Quantities, any operation permitted to maintain this Lease is being conducted on the Land, or this Lease is continued in force by reason of any of its other provisions.
- 3.2 Effective as of the expiration of the Primary Term, this Lease will terminate as to both of the following:
- (A) All of the Land that is not located within a Retained Tract on which there is a well producing or capable of producing Leased Substances in Paying Quantities.
 - (B) All depths lying below the stratigraphic equivalent of the deepest producing formation in a well producing or capable of producing Leased Substances in Paying Quantities within any Retained Tract on which there is a well producing or capable of producing Leased Substances in Paying Quantities.
- 3.3 Effective as of the date Production in Paying Quantities, Drilling Operations, Recompletion Operations or Reworking Operations cease as set forth in Section 7, this Lease will terminate as to the lands and depths described in Sections 3.2(A) and 3.2(B).
- 3.4 Notwithstanding anything contained herein to the contrary, regardless of partial termination of this Lease under Sections 3 or 7, Lessee may continue to use pipelines, tank batteries and other surface equipment previously installed on the terminated tracts in connection with Lessee's operations on the Retained Tracts, and Lessee will continue to have ingress and egress across the terminated tracts in connection with its operations on the Retained Tracts.
- 3.5 Effective as of the expiration of the Primary Term or cessation of Drilling Operations, Recompletion Operations, or Reworking Operations for more than the allowed time under Section 7, each Retained Tract that is retained by Lessee under the terms of this Section will be considered to be a separately leased tract in the same manner as if Lessor had executed separate and distinct leases covering each such tract, and this Lease will continue with respect to each such tract only for so long as the tract continues to produce or be capable of producing Leased Substances in Paying Quantities, or this Lease is continued in force as to such tract by reason of other provisions of this Lease.
- 3.6 Within thirty days after this Lease terminates as to any or all of the Land or depths leased under Section 3.2, Lessee will file an instrument in the public notice records for the county where the Land is located, which reflects Lessee's rights under this Lease have terminated as to the terminated acreage or depths, provided that Lessee will continue to have ingress and egress to the terminated acreage to the extent necessary to satisfy

Lessee's plugging and abandonment and surface restoration obligations under Section 9. If Lessee fails to comply with its obligation to timely file a notice of termination, Lessee authorizes Lessor to file a notice of Lease termination on Lessee's behalf.

- 3.7 Lessee may at any time or times surrender this Lease as to all or any portion of the Land by mailing or tendering to Lessor or by filing for record a release or releases, and this Lease will terminate as to the land surrendered as of the filing for record date(s).
- 3.8 Upon termination of this Lease as to any or all of the Land, all burdens on the terminated acreage that may have been created by, through or under Lessee or its assigns (including but not limited to overriding royalty interests, net profits interests, and other payments out of production) will terminate and be of no further force or effect. Lessee warrants the terminated acreage will be free and clear of any mortgage, Lien, encumbrance, or other burden of any kind which may have been created by, through or under Lessee or its assigns.
- 3.9 All provisions of this Lease relating to the payment of royalties, ownership of, confidentiality of, return of, restrictions on the use, transfer, and disclosure of data, the use, transfer, and restoration of Land, plugging and abandonment of wells, removal of Property, representations, warranties, releases, indemnities, audit, disclaimer of certain remedies, limitations of liability, dispute resolution, and discharge of Liens and taxes will remain in full force and effect, and will survive indefinitely upon any termination of this Lease, until, by their respective terms, they are no longer operative or are otherwise limited by an applicable statute of limitations.
- 3.10 **Termination of this Lease in whole or in part will not relieve Lessee from any liability, duty or obligation that accrued, attached or arose prior to the date of termination or that accrues, attaches or arises upon termination or that survives termination.**

4. ROYALTIES

- 4.1 Lessee will pay Lessor the following royalties on leased substances produced from or allocable to the Land:
- (A) on oil, including condensate, distillate, and all hydrocarbons produced in a liquid form at the mouth of the well or recovered from oil or gas run through a separator or other equipment, Lessee will deliver to Lessor at the well or to the credit of Lessor in the pipeline to which the well may be connected, 25% of the oil produced and saved from or allocable to the Land, or at the option of Lessor, the market value at the well of such production;
 - (B) on gas (including casinghead gas and any other gaseous substances) not processed in a plant for the recovery of gasoline, liquid hydrocarbons, or other substances, 25% of the gas produced and saved from or allocable to the Land, or at the option of Lessor, the market value at the well of such gas produced, saved and sold;
 - (C) on gas processed in a plant for the recovery of gasoline, liquid hydrocarbons, or other substances, 25% at the tailgate of the plant of 100% of the residue gas, liquid hydrocarbons and other substances produced and saved from or allocable to the Land or, at the option of Lessor, the market value at the well of such production

that is sold after processing. The production or the market value of such production, whichever is applicable, will be less any post production costs that may be allocated to Lessor's royalty interest, with the processing fees being determined as set forth below:

- (1) if the gas is processed under an arm's length processing agreement by a party not affiliated with or related to Lessee, the royalties payable to Lessor on residue gas will be based on the percentage of residue gas, liquid hydrocarbons and other substances payable to Lessee under the terms of its processing agreement after deduction of the processor's processing fee; or
- (2) if the gas is processed in a plant in which Lessee or its parent, subsidiary or other affiliate or related party owns more than a 50% interest, then the royalty interest payable to Lessor will be based on 100% of the total plant production of residue gas, liquid hydrocarbons and other substances attributable to gas produced from or allocable to the Land, less the actual cost incurred by Lessee, its affiliate or related party for processing such gas production.

- 4.2 Notwithstanding anything in this Article 4. to the contrary, if Lessee sells Leased Substances produced from or allocable to the Land, or products extracted from such leased substances, on an arm's length basis to a purchaser not affiliated with or related to Lessee, the proceeds from such sale will be deemed to be the market value for purposes of this Article. An arm's length purchaser is an entity that Lessee or its parent, subsidiary or other affiliate owns or controls less than a 50% interest. If Lessee sells leased substances produced from or allocable to the Land, or products extracted from such leased substances, to a purchaser affiliated with or related to Lessee, the proceeds from the resale of such production or products to the first purchaser not affiliated with or related to Lessee, will be deemed to be market value for purposes of this article. An affiliated or related purchaser is an entity that Lessee or its parent, subsidiary or other affiliate owns or controls a 50% or greater interest. If leased substances produced from or allocable to the Land, or products extracted from such leased substances, are used by Lessee off the Land or land pooled with the Land rather than sold, the market value at the well of such production will be deemed to be market value for purposes of this article.
- 4.3 Unless otherwise specifically provided in this Lease, royalties to Lessor will be computed and paid without deduction for costs of exploration, development and production, except that Lessor will bear its share of production, severance and ad valorem taxes.
- 4.4 If Lessee fails to properly pay royalties within the time period as may be required by law or, if no such time period is prescribed, within 60 days after the month of production, past due payments will thereafter bear interest at the maximum rate permitted by the applicable laws of the state in which the Land is located, until proper payment has been made. Lessee will be obligated to reimburse Lessor's attorneys' fees, court costs, and other costs incurred in connection with the collection of unpaid amounts.
- 4.5 The royalties payable to Lessor under this Lease are determined with respect to the entire fee simple estate in leased substances and if Lessor owns a lesser interest in such estate in leased substances, such royalties will be reduced proportionately.

- 4.6 Lessee will not be obligated to pay royalties on leased substances used in its operations on the Land or land pooled with the Land.
- 4.7 Lessor will have the right to audit and review all information (including without limitation, all books, records, contracts, correspondence, run tickets, evidence of sales and shipments, reports and analyses, and electronically stored information and data) possessed by or available to Lessee, its affiliates and related parties, which may be pertinent to the determination of the payment of royalties or other amounts due under this Lease, at the office at which such information is maintained. Such information includes that submitted to third parties (including government entities) concerning production from the Land or land pooled with the Land, or any tax based upon the value of production or products extracted from such production. In conjunction with any audit, Lessee will, to the fullest extent practicable, assemble and present the information so that it is complete, and otherwise cooperate fully with Lessor in the conduct of the audit.
- 4.8 The provisions of this article will survive termination of this Lease.

5. SHUT-IN GAS WELL PAYMENTS

If Lessee discovers gas capable of being produced in Paying Quantities in any well drilled on the Land and should Lessee be unable to produce such well because of lack of market or marketing facilities or governmental restrictions, and should there be neither other current production in Paying Quantities of Leased Substances from the Land, or operations sufficient to keep this Lease in force, Lessee may at any time or times during or after the Primary Term at Lessee's election, pay as royalty ("shut-in gas well payment") a sum equal to Ten Dollars (\$10.00) per acre on the acreage within the Retained Tract, in which event it will be considered that a Leased Substance is being produced in Paying Quantities from the Retained Tract for a period of one year, such year to commence on the anniversary of the Effective Date of this Lease next preceding such payment. Shut-in gas well payments will be reduced proportionately if Lessor owns less than the entire fee simple estate in the gas. Shut-in gas well payments will not be in lieu of any royalty based on actual production. However, this Lease may not be maintained by shut-in gas well payments with respect to any Retained Tract for more than any single continuous period of one year, nor for more than a cumulative period of three years during the term of this lease. The cumulative time under this Article 5 shall be calculated as the number of months during which royalties were not paid for physical production from the Land.

6. PAID-UP LEASE

This is a Paid-Up Lease and Lessee will not be obligated to make any rental payments or to commence or continue any operations in order to maintain this Lease in force during the primary term.

7. CESSATION

- 7.1 This Lease will terminate pursuant to Section 3.3 upon the occurrence of any of the following:
- (A) Production in Paying Quantities ceases for any reason: (1) within 60 days before the expiration of the Primary term, or (2) at any time after the expiration of the Primary Term, and, in either case, Lessee fails to re-establish Production in Paying

Quantities by: (3) commencing Drilling Operations, Reworking Operations or Recompletion Operations on the Land or other land pooled with the Land within 60 days after such cessation of production, and (4) continuously conducting such Drilling Operations, Reworking Operations or Recompletion Operations without cessation of more than 60 consecutive days for operations on a single well, or 90 consecutive days between the completion of such operations on one well (completion being defined as the date of rig release) and the commencement of such operations on another well; or,

- (B) If Lessee is engaged in Drilling Operations, Recompletion Operations, or Reworking Operations on the Land or other land pooled with the Land upon or within 90 days prior to expiration of the Primary Term, then effective as of the date such Drilling Operations, Recompletion Operations, or Reworking Operations cease for more than 60 consecutive days in such operations on a single well, and no cessation of more than 90 consecutive days between the completion of such Drilling Operations, Recompletion Operations, or Reworking Operations on one well (completion being defined as the date of rig release) and the commencement of Drilling Operations, Recompletion Operations, or Reworking Operations on another well.

8. SURFACE USE AND DAMAGES

- 8.1 NOTWITHSTANDING ANYTHING CONTAINED IN THIS LEASE TO THE CONTRARY, LESSEE SHALL NOT CONDUCT ANY SURFACE OPERATIONS UPON ANY PART OF THE SURFACE OF THE LAND. LESSEE SHALL, HOWEVER, HAVE THE RIGHT TO DRILL HORIZONTALLY UNDER THE SURFACE OF THE LAND TO EXPLORE FOR AND DEVELOP MINERALS FROM THE LANDS AND LANDS UNITIZED THEREWITH.
- 8.2 Lessor and Lessee will have equal and concurrent easement rights on and to the Land and Lessor reserves rights of ingress and egress on, over, under and through the Land to the extent Lessor may deem necessary or convenient in conducting drilling, producing, processing, storing and other operations, whether similar or dissimilar, on or off the Lease and also including the right to drill for, produce and transport water (whether fresh, saline, sulfur or other) for such uses or purposes as it may elect.
- 8.3 Lessee will pay for all damages caused by Lessee's operations. Lessee will bury pipelines below ordinary plow depth, and will maintain said pipelines at that depth throughout the term of the Lease. No well will be drilled on the Land within two hundred feet of any residence or barn on the Land without the consent of the surface owner.

9. PLUGGING, SURFACE RESTORATION, AND REMOVAL OF PROPERTY

- 9.1 Except as otherwise provided in this Lease, within ninety days after termination of this Lease as to any Land, Lessee will do all of the following:
- (A) Plug all wells drilled by or for the account of Lessee on the terminated acreage in full compliance with all laws and all rules, regulations and orders of all regulatory authorities having jurisdiction.

- (B) Remove from the terminated acreage all structures, facilities, foundations, wellheads, tanks, pipelines, flowlines, pumps, compressors, separators, heater treaters, valves, fittings and equipment and machinery of any nature, together with all substances or materials contained inside, which have been placed on the Land by or for the account of Lessee.
- (C) Remove all trash and debris from the terminated acreage.
- (D) Treat and backfill all pits on the terminated acreage.
- (E) Restore the surface of the terminated acreage as nearly as practicable to its original condition.
- (F) If Lessee exercises its right to maintain equipment on terminated acreage in connection with operations on Retained Tracts under Section 3, then Lessee's obligations to remove equipment and restore the surface on which the equipment is located will be postponed for so long as Lessee continues to use such equipment in its operations on the Retained Tracts.

LESSEE AGREES TO DEFEND, INDEMNIFY AND HOLD HARMLESS LESSOR AND ITS AFFILIATES AGAINST ALL CLAIMS, AND ALL LIABILITIES, PENALTIES, FINES, PAYMENTS, JUDGMENTS, DAMAGES, LOSSES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION ATTORNEYS' FEES AND COURT COSTS, COSTS OF INVESTIGATING CLAIMS, SITE ASSESSMENTS, TESTING AND REMEDIAL ACTIONS) INCURRED AND/OR PAID IN CONNECTION WITH SUCH CLAIMS, ARISING FROM LESSEE'S FAILURE TO PROPERLY PLUG AND ABANDON SUCH WELLS, REMOVE SUCH STRUCTURES AND EQUIPMENT, REMOVE SUCH TRASH AND DEBRIS, TREAT AND BACKFILL SUCH PITS, OR PERFORM SUCH SURFACE RESTORATION.

- 9.2 Any buildings, improvements, material, machinery, equipment or other Property that may be constructed or placed on the Land by Lessee will not become part of the real Property but will remain the personal Property of Lessee. Except as otherwise provided in this Lease, Lessee will remove all of its personal Property from the Land within ninety days following termination of this Lease. If Lessee fails to remove its personal property from the Land within ninety days following termination of this Lease, Lessor will have the right but not the obligation to assume ownership of such personal Property without the necessity of a formal conveyance or bill of sale from Lessee, and/or to dispose of such personal Property and retain any proceeds from sale.

- 9.3 The provisions of this Section 9 will survive termination of this Lease.

10. FORCE MAJEURE

- 10.1 **Definition of Force Majeure Event.** "Force Majeure Event" means any of the events or circumstances described in Section 10.1(A) that are beyond the control of an affected Party and which prevents Lessee from carrying out any of its obligations under this Lease after Lessee has taken reasonable and timely steps, including reasonable expenditures of money, to remedy the impact of the event:

- (A) Events or circumstances that may give rise to a Force Majeure Event are limited to the following:
 - (1) Earthquakes, tornadoes, hurricanes, fires, storms, tidal waves, floods or other physical natural disasters.
 - (2) Acts of war (whether declared or undeclared), terrorism, riot, civil war, blockade, insurrection or civil disturbances.
 - (3) Acts, rules, regulations, laws, ordinances, permit requirements, or local legislation or administration of a governmental entity, agency or other local authority that prevent or make unlawful Lessee's performance under this Lease.
 - (4) Strikes or labor disputes at the national level, but excluding any strike or dispute which is specific to the performance of Lessee's obligations under this Lease.
- (B) The Parties confirm that Force Majeure Events do not include any of the following events or circumstances:
 - (1) The mere shortage of or inability to obtain labor, equipment, materials or transportation which is not itself caused by a Force Majeure Event.
 - (2) The insolvency or change in economic circumstances of Lessee.
 - (3) Change in market conditions.

10.2 **Excuse of Performance due to a Force Majeure Event.** Subject to compliance with Section 10.2, the primary term will be extended for a period of time equal to the period that Lessee is prevented from exercising its rights, and this Lease will remain in full force and effect during such period of prevention and during any such extension of the primary term..

10.3 **Notice and Mitigation.** If Lessee seeks extension of the Primary Term under Section 10.2, it shall:

- (A) Give prompt notice to Lessor, which must include all of the following information:
 - (1) The event that Lessee considers constitutes a Force Majeure Event and its likely effect on the performance of Lessee's obligations under this Lease.
 - (2) A good faith estimate of the duration of the Force Majeure Event.
 - (3) The actions being taken (or proposed to be taken) to satisfy Section 10.3(B).
- (B) Make all reasonable efforts, including expenditure of money, to overcome the Force Majeure Event and to mitigate its effects.

- (C) If the Force Majeure Event continues, give periodic notices in accordance with Section 10.3(B), with a frequency as directed by Company Representative.
- (D) Give the other Party prompt notice of the conclusion of the Force Majeure Event and resume performance of the Services as soon as reasonably possible after its conclusion.

11. CONTRACT INFORMATION

- 11.1 In conducting operations under this Lease, Lessee will test all formations having an adequate show of oil or gas, or which for any other reason would indicate to a prudent operator that such formations should be tested. In addition, Lessee will drill any well which a reasonably prudent operator would drill under the same or similar circumstances to prevent drainage from the Land by wells located on adjoining land when such drainage is not compensated by counter drainage.
- 11.2 Lessor and its representatives will have full access to all wells (including but not limited to the derrick floor) drilled by or for the account of Lessee on the Land and on land pooled with the Land, and full access to all facilities installed by or for the account of Lessee on the Land and on land pooled with the Land, including access to all records pertaining to such wells and facilities. Lessee will furnish Lessor, free of cost, any of the following data ("Data") obtained, gathered, collected, or otherwise acquired by Lessee as soon as it becomes available to Lessee: samples or copies of all cores, cuttings, logs, drilling data, testing and completing data, and all other information obtained by Lessee pertaining to all wells drilled on the Land and on land pooled with the Land, including but not limited to the information required by Exhibit "B." Notwithstanding the foregoing, Lessee shall not be required to incur costs to collect information or conduct any tests which Lessee, in its sole discretion, has elected not to collect or conduct.
- 11.3 On an annual basis following the completion of the first producing well drilled under this Lease, Lessee will furnish Lessor a statement on or before the end of the third month following such completion showing all wells which are planned, permitted, drilled or being drilled under this Lease or on lands unitized therewith, the status of all such wells and current production and sales information for all producing wells, including but not limited to quantities of leased substances produced and the price received for the sale of such leased substances.
- 11.4 Lessee further agrees to give Lessor written notice prior to conducting or participating in any seismic operations across the Land or land pooled with the Land. If requested in writing, Lessee will furnish Lessor a plat showing all holes drilled and all energy emission points used in connection with each such seismic survey and a copy of the surface owner's approval.

12. POOLING

- 12.1 In connection with operations for the production of oil and gas or either of them, Lessee may at any time or times pool this Lease, in whole or in part, as to any stratum or strata, with other lands and leases in the same area or field so as to constitute a unit or units under the pooling authority granted by this Lease and/or whenever necessary to comply with a law, rule, order or regulation of a governmental authority having jurisdiction, by filing for record an instrument so declaring subject to the following: pooled units will

allocate to the portion of this Lease included in any such unit a fractional part of all production from any part of such unit in the proportion that the total number of acres covered by this Lease included in such unit bears to the total number of acres included in such unit, and such units will not exceed 40 acres if for the production of oil and will not exceed 160 acres if for the production of gas, plus a tolerance of 10% in each instance, except that if the governmental authority having jurisdiction by appropriate rule, order or regulation prescribes or permits units of a larger size, the unit or units may be increased up to the maximum so prescribed or permitted.

- 12.2 Any pooled unit established under Section 12.1 may be corrected or amended and may be enlarged to include acreage believed to be productive (subject to the acreage limitations set forth above) or may be diminished by excluding acreage believed to be nonproductive or may be diminished by excluding acreage the owners of which fail or refuse to participate in the unit and, in the absence of current production, any such unit may be abolished and dissolved by filing for record an instrument so declaring.
- 12.3 Instruments filed for record under Section 12 will be filed in the public notice records for the county in which the Land is located. Upon production from any part of any such unit, Lessor will be entitled to the royalties provided for in this Lease on only that fractional part of unit production allocated to that portion of this Lease included in such unit on a surface acreage allocation basis. Operations upon any such unit or projected to any part of any such unit from an off-unit drillsite or production from any part of such unit will be treated and considered for all purposes of this Lease, except payment of royalties, as operations upon or production from this Lease.

13. DISCHARGE OF TAXES

- 13.1 Lessor will pay all taxes that may be assessed directly or indirectly against the Land because of improvements constructed or placed on such premises by Lessee.
- 13.2 Lessee at its option may purchase or discharge in whole or in part any tax, mortgage or other Lien upon the Land created by, through or under Lessor, or may redeem the same from any purchaser at any tax sale or adjudication, and may reimburse itself from any royalties accruing under this Lease and will be subrogated to such Lien with the right to enforce same.
- 13.3 The provisions of this Section will survive termination of this Lease.

14. DISCLAIMERS OF REPRESENTATION OR WARRANTY

THIS LEASE IS MADE ON AN "AS IS, WHERE IS" BASIS AND "WITH ALL FAULTS." LESSOR MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED, WITH RESPECT TO ANY OF THE FOLLOWING: (A) TITLE TO THE LAND OR OIL OR GAS UNDER OR PERSONAL PROPERTY LOCATED ON SUCH LAND; (B) ORIGIN, QUANTITY, QUALITY, CONDITION, MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE OR SAFETY OF EQUIPMENT OR PREMISES; (C) COMPLIANCE OF THE LAND OR RELATED FIXTURES AND PERSONAL PROPERTY WITH GOVERNMENTAL REGULATIONS; (D) THE QUANTITY, VALUE OR EXISTENCE OF RESERVES OF LEASED SUBSTANCES PRODUCIBLE OR RECOVERABLE FROM THE LAND; OR (E) THE CONDITION OF THE LAND AND RELATED FIXTURES AND IMPROVEMENTS.

15. LESSEE'S INDEMNITY

15.1 GENERAL.

- (A) EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED IN THIS LEASE, LESSEE AGREES TO RELEASE, DISCHARGE, DEFEND, INDEMNIFY, AND HOLD HARMLESS LESSOR, ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES, FROM AND AGAINST ALL CLAIMS, AND ALL LIABILITIES, PENALTIES, FINES, JUDGMENTS, PAYMENTS, DAMAGES, LOSSES, COSTS AND EXPENSES (INCLUDING BUT NOT LIMITED TO COURT COSTS AND ATTORNEYS' FEES, COSTS OF INVESTIGATING CLAIMS, SITE ASSESSMENTS, TESTING AND REMEDIAL ACTIONS) INCURRED OR PAID IN CONNECTION WITH SUCH CLAIMS, ARISING FROM OR ASSOCIATED WITH LESSEE'S OPERATIONS UNDER THIS LEASE. LESSEE'S RELEASE, DEFENSE AND INDEMNITY OBLIGATIONS APPLY WITHOUT LIMITATION TO ACTS AND OMISSIONS ON OR RELATING TO THE LAND OF LESSOR, ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES REGARDLESS OF THE NEGLIGENCE, BREACH OF CONTRACT, BREACH OF WARRANTY, STRICT LIABILITY, REGULATORY LIABILITY, STATUTORY LIABILITY, OR OTHER FAULT OR RESPONSIBILITY OF LESSOR, ITS AFFILIATES, THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES, OR ANY OTHER PERSON OR PARTY, BUT DO NOT APPLY TO CLAIMS CAUSED SOLELY BY LESSOR, ITS AFFILIATES, OR THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES DURING OR AFTER THE TERM OF THIS LEASE, AS DETERMINED BY A FINAL, NONAPPEALABLE DECISION OF A COURT OF COMPETENT JURISDICTION.
- (B) IF LESSEE FAILS TO PERFORM ANY ACT REQUIRED BY THIS LEASE OR OTHERWISE COMPLY WITH ANY OF ITS OBLIGATIONS UNDER THIS LEASE WITH RESPECT TO OPERATIONS THAT PHYSICALLY AFFECT THE SURFACE OF THE LAND, LESSOR WILL HAVE THE RIGHT BUT NOT THE OBLIGATION TO PERFORM THE ACT OR OBLIGATION THAT LESSEE FAILED TO PERFORM, AND LESSEE WILL FULLY INDEMNIFY LESSOR AGAINST ALL COSTS AND EXPENSES INCURRED BY LESSOR IN PERFORMING THE ACT OR OBLIGATION THAT LESSEE FAILED TO PERFORM. IF LESSEE FAILS TO FULLY COMPLY WITH THE TERMS OF THIS LEASE WITH RESPECT TO OPERATIONS THAT PHYSICALLY AFFECT THE SURFACE OF THE LAND, LESSEE WILL BE OBLIGATED TO REIMBURSE ALL COSTS AND EXPENSES INCURRED BY LESSOR IN ENFORCING THIS LEASE, INCLUDING BUT NOT LIMITED TO COURT COSTS AND ATTORNEYS' FEES.

15.2 ENVIRONMENT.

- (A) NOTWITHSTANDING ANYTHING CONTAINED IN THIS ARTICLE 15 TO THE CONTRARY, LESSOR SHALL REMAIN LIABLE FOR ALL CLAIMS

AND CAUSES OF ACTION ARISING SOLELY AS A RESULT OF RETAIL GASOLINE STORAGE AND SALES BY LESSOR ON THE LAND. PURSUANT TO SECTION 8.1, LESSEE HAS NO RIGHT TO CONDUCT OPERATIONS ON THE SURFACE. IN THE EVENT THAT ANY LESSEE ENGAGES IN ANY ACTIVITIES ON THE SURFACE OF THE LANDS IN CONNECTION WITH THIS LEASE, LESSEE SHALL, SUBJECT TO OBTAINING NECESSARY PERMITS AND CONSENTS, CONDUCT ANY INSPECTION WHICH IT DEEMS NECESSARY ON THE LAND PRIOR TO ENTERING ONTO THE PREMISES, INCLUDING BUT NOT LIMITED TO INSPECTIONS PERTAINING TO THE PHYSICAL AND ENVIRONMENTAL CONDITION (BOTH SURFACE AND SUBSURFACE) OF THE LAND, AND FOR THE PRESENCE OF NATURALLY OCCURRING RADIOACTIVE MATERIALS ("NORM"), ASBESTOS AND OTHER SUBSTANCES, POLLUTANTS OR CONTAMINANTS. LESSEE ACKNOWLEDGES THAT THE LAND MAY HAVE BEEN USED IN CONNECTION WITH OIL, GAS, AND/OR WATER PRODUCTION, TRANSPORTATION, TREATMENT, STORAGE, DISPOSAL OR OTHER OPERATIONS AND MAY CONTAIN NORM, ASBESTOS, AND OTHER SUBSTANCES, POLLUTANTS OR CONTAMINANTS AS A RESULT OF SUCH OPERATIONS. IF LESSEE CONDUCTS ANY ACTIVITIES ON THE SURFACE OF THE LANDS PURSUANT TO THIS LEASE, THEN SUBJECT ONLY TO LESSOR'S RETAINED LIABILITIES SPECIFICALLY DESCRIBED ABOVE IN THIS SECTION 15.2(A), LESSEE IS ACQUIRING THE LAND IN AN "AS IS AND WHERE IS" CONDITION AND ASSUMES FULL RESPONSIBILITY FOR NORM, ASBESTOS, AND OTHER SUBSTANCES, POLLUTANTS OR CONTAMINANTS WHICH MAY BE LOCATED ON THE LAND.

- (B) EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED IN THIS LEASE, LESSEE AGREES TO RELEASE, DISCHARGE, DEFEND, INDEMNIFY AND HOLD HARMLESS LESSOR AND ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES, AGAINST ALL CLAIMS, AND ALL LIABILITIES, PENALTIES, FINES, PAYMENTS, JUDGMENTS, DAMAGES, LOSSES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION ATTORNEYS' FEES AND COURT COSTS, COSTS OF INVESTIGATING CLAIMS, SITE ASSESSMENTS, TESTING AND REMEDIAL ACTIONS) INCURRED AND/OR PAID IN CONNECTION WITH SUCH CLAIMS, AND CAUSED BY OR RELATING TO LESSEE'S OPERATIONS ON THE LAND RELATING TO THE ENVIRONMENTAL CONDITION OF THE LAND, INCLUDING BUT NOT LIMITED TO CLAIMS INVOLVING NORM, ASBESTOS, OR OTHER SUBSTANCES, POLLUTANTS OR CONTAMINANTS, AND CLAIMS ARISING UNDER ANY FEDERAL, STATE, TRIBAL, OR LOCAL LAW OR REGULATION ("LAWS"). THE LAWS INCLUDE, WITHOUT LIMITATION, THE COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT, THE RESOURCE CONSERVATION AND RECOVERY ACT, THE CLEAN WATER ACT, THE SAFE DRINKING WATER ACT, THE HAZARDOUS MATERIALS TRANSPORTATION ACT, THE TOXIC SUBSTANCE CONTROL ACT, AND ALL AMENDMENTS TO SUCH ACTS. SUBJECT ONLY TO

LESSOR'S RETAINED LIABILITIES SPECIFICALLY DESCRIBED ABOVE IN SECTION 15.2(A), IF LESSEE CONDUCTS ANY OPERATION ON THE LANDS OTHER THAN DRILLING BENEATH THE SURFACE AS PROVIDED IN SECTION 8.1, THEN LESSEE'S RELEASE, DEFENSE AND INDEMNITY OBLIGATIONS APPLY WITHOUT LIMITATION TO ACTS AND OMISSIONS ON OR RELATING TO THE LAND OF LESSOR, ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES REGARDLESS OF THE NEGLIGENCE, BREACH OF CONTRACT, BREACH OF WARRANTY, STRICT LIABILITY, REGULATORY LIABILITY, STATUTORY LIABILITY, OR OTHER FAULT OR RESPONSIBILITY OF LESSOR, ITS AFFILIATES, THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES, OR ANY OTHER PERSON OR PARTY, BUT DO NOT APPLY TO CLAIMS CAUSED SOLELY BY LESSOR, ITS AFFILIATES, OR THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES, AS DETERMINED BY A FINAL, NONAPPEALABLE DECISION OF A COURT OF COMPETENT JURISDICTION.

- (C) In its operations under this Lease, Lessee agrees to comply with the environmental stipulations set forth in Exhibit C.

15.3 INDEMNITIES APPLY TO LESSOR'S NEGLIGENCE.

EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED IN THIS LEASE, ALL RELEASE, DEFENSE AND INDEMNITY PROVISIONS OF THIS LEASE APPLY WITHOUT REGARD TO THE CAUSE OR CAUSES OF THE UNDERLYING CLAIM, INCLUDING BUT NOT LIMITED TO (A) THE NEGLIGENCE (WHETHER SOLE, CONTRIBUTORY, COMPARATIVE, CONCURRENT, ACTIVE, PASSIVE, SIMPLE, OR GROSS) OF LESSOR, ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES, (B) THE LIABILITY WITHOUT FAULT OF LESSOR, ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF LESSOR AND ITS AFFILIATES, AND (C) THE NEGLIGENCE (WHETHER SOLE, CONTRIBUTORY, COMPARATIVE, CONCURRENT, ACTIVE, PASSIVE, SIMPLE, OR GROSS) OR LIABILITY WITHOUT FAULT OF LESSEE OR ANY THIRD PARTY. IF ANY INDEMNITY PROVISION OF THIS LEASE IS JUDGED INVALID OR UNENFORCEABLE BY A COURT OF COMPETENT JURISDICTION OR BY OPERATION OF ANY APPLICABLE LAW, SUCH PROVISION WILL BE DEEMED OMITTED TO THE EXTENT AND ONLY TO THE EXTENT OF THE INVALIDITY OR UNENFORCEABILITY, AND THE REMAINING INDEMNITY PROVISIONS WILL REMAIN IN FULL FORCE AND EFFECT.

- 15.4 The provisions of this Section 15 will survive termination of this Lease.

16. COMPLIANCE WITH LAW

In its operations under this Lease, Lessee will comply with all applicable federal, state, tribal and local laws and with all rules, regulations and orders of all regulatory authorities having jurisdiction.

17. BREACH

If Lessee defaults in the performance of any of its obligations under this Lease, Lessor may enforce the performance of this Lease in any manner provided by law. This Lease may be terminated at Lessor's discretion if such default continues for a period of ninety days after Lessor notifies Lessee in writing of such default and Lessor's intention to terminate this Lease, and Lessee has not cured the default within such ninety day period or has not undertaken actions reasonably calculated to cure the default within such period and thereafter pursued such actions with reasonable diligence Lessee shall be liable to Lessor for any resulting damages. Thereafter, Lessor shall have the right but not the obligation, without further notice or demand, to enter the Land, remove all of Lessee's personal Property that may be located on the Land, if any, and restore the Land to its condition prior to placement of such personal Property without waiving any other remedies to which Lessor may be entitled. If, within ninety days from the date of Lease termination, Lessee does not fully reimburse the costs Lessor incurs in removing and storing Lessee's personal Property and restoring the Land to its original condition, then in addition to Lessor's other rights under this Lease or at law or in equity, Lessor may dispose of the stored Property, retain any proceeds from the sale of such Property, and maintain an action against Lessee for any deficiency.

18. LIENS

Lessee will pay all claims for labor and materials that may be furnished in connection with operations by Lessee or for Lessee's account under this Lease. Furthermore, Lessee will not create, incur or permit to be incurred any Lien, encumbrance or claim against Lessor's interest in the Lease or the Land. If any lien, encumbrance or claim is filed against the Lease or the Land which covers Lessor's interest in the Lease and if Lessee does not fully satisfy same within ninety days following written demand by Lessor to remove the lien, then Lessor may, in its sole discretion and in addition to any other remedy Lessor may have at law or in equity, terminate this Lease. NOTWITHSTANDING TERMINATION OF THIS LEASE, LESSEE WILL DEFEND, INDEMNIFY AND HOLD LESSOR HARMLESS AGAINST ALL LIENS, ENCUMBRANCES AND CLAIMS THAT MAY BE FILED AGAINST LESSOR'S INTEREST IN THE LEASE OR THE LAND AND ALL LIABILITIES, PENALTIES, FINES, PAYMENTS, JUDGMENTS, DAMAGES, LOSSES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION ATTORNEYS' FEES AND COURT COSTS) INCURRED AND/OR PAID IN CONNECTION WITH SUCH LIENS, ENCUMBRANCES OR CLAIMS. The provisions of this Section will survive termination of this Lease.

19. RIGHTS RESERVED

Lessor reserves the rights of access to and from the Land and the right to use the Land in connection with Lessor's retained rights under this Lease and in connection with Lessor's operations on lands not leased under this Lease.

20. TIME OF THE ESSENCE

Time will be of the essence in carrying out Lessee's obligations under this Lease.

21. TRANSFER

21.1 By Lessee.

- (A) Lessee shall not assign or transfer in whole or part its rights and obligations under this Lease to any Person, without Lessor's prior written consent. Lessor may withhold its consent or impose conditions for its consent to any proposed assignment for any reason or for no reason, in Lessor's sole discretion, provided that failure by Lessor to respond within thirty days following receipt of prior written notice of Lessee's intention to assign shall be deemed Lessor's consent to the assignment described in the notice.
- (B) Any attempted assignment or transfer in breach of this obligation is void and of no force as between Lessor and Lessee in Lessor's sole discretion and is in addition to any other remedy available to Lessor at law or in equity.
- (C) If Lessor consents to an assignment, Lessee and its assign(s) will be jointly and severally liable for the performance of all obligations imposed upon Lessee under this Lease, and such assignment will not be binding upon or recognized by Lessor in any way unless and until a certified copy has been furnished to Lessor.
- (D) Lessor's consent to an assignment will not be construed as waiving Lessor's right to refuse consent to any subsequent assignment.

21.2 By Lessor.

- (A) Lessor may assign or transfer all or part of its rights or obligations under this Lease to any other Person at any time without Lessee's consent.
- (B) No change in ownership of Lessor's interest (by assignment or otherwise) will be binding on Lessee until thirty (30) days after Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No present or future division of Lessor's ownership as to different portions or parcels of the Land will operate to enlarge the obligations or diminish the rights of Lessee, and Lessee's operations may be conducted without regard to any such division.

22. INSURANCE

- 22.1 Neither the minimum policy limits of insurance required of Lessee under this Section 22 nor the actual amounts of insurance maintained by Lessee under its insurance program limit or reduce Lessee's liability and indemnity obligations in this Lease.
- 22.2 Lessee shall maintain the following insurance and all other insurance required by applicable law:
 - (A) Worker's Compensation and Employer's Liability Insurance as prescribed by applicable laws where Lessee's operations under this Lease ("Operations") are performed and, if applicable, the states, provinces and/or countries of residence of Lessee personnel performing Operations. The Employer's Liability Insurance shall have a limit of not less than \$2,000,000 per occurrence;
 - (B) Commercial General Liability (Bodily Injury and Property Damage) Insurance, including the following supplemental coverages: Contractual Liability to cover

the liabilities assumed in this Lease; Products and Completed Operations; Explosion, Collapse and Underground Hazards; and Sudden and Accidental Pollution. The policy territory coverage must include all areas where Operations are to be performed. The policy limits must not be less than \$5,000,000 combined single limit per occurrence;

- (C) Automobile Bodily Injury and Property Damage Liability Insurance extending to all vehicles provided by Lessee in the performance of Operations. The policy limits for this insurance must be the higher of the amount required by applicable law or \$2,000,000 combined single limit per occurrence;
- (D) Operator's Extra Expense Insurance including, but not limited to: coverage for control of well (including underground control of well); redrill and extra expense; extended and unlimited redrill; seepage, pollution, clean-up and contamination; evacuation expense; making wells safe; and care, custody and control. The limits for such insurance will not be less than \$5,000,000.00 combined single limit per occurrence.
- (E) If performance of Operations requires Lessee to use drilling rigs or any watercraft, Lessee shall maintain or require owners of the rigs and watercraft to maintain the following:
 - (1) Hull and Machinery Insurance ("H&M") on all vessels, barges and rigs used by Lessee in the performance of Operations, in an amount equal to the fair market value of each vessel, barge or rig;
 - (2) Protection and Indemnity ("P&I") Liability Insurance including coverage for injuries to or death of masters, mates and crews (which must include coverage under the Jones Act, Death on the High Seas Act and General Maritime Law), collision liabilities not covered under H&M, excess collision liabilities and pollution liabilities for all vessels, barges and rigs used in the performance of Operations. The policy territory coverage must include all areas where each vessel and barge is used. The policy limit for this insurance must be an amount at least equal to the fair market value of each vessel or barge but not less than \$10,000,000 or its currency equivalent per occurrence. The phrase, "as owner of the vessel", and all other similar phrases purporting to limit underwriter's liability as to the value of the vessel shall be deleted from the policy. The policy shall provide that claims "in rem" shall be treated as claims against the Lessee.
- (F) If performance of Operations requires Lessee to use aircraft (including helicopters), Lessee shall maintain or require owners of aircraft to maintain Aircraft Liability (Bodily Injury (including liability to passengers) and Property Damage) Insurance with a combined single limit of not less than \$25,000,000 or its currency equivalent per occurrence.

22.3 Policy Endorsements.

- (A) Lessee shall, or shall cause its insurer, to provide Lessor with thirty days' notice before canceling or making a material change to an insurance policy required by Section 22.2.
- (B) Waivers of subrogation in favor of Lessor, its affiliates, and the employees and agents of Lessor and its affiliates (all, "Indemnitees"), must be included in the Workers' Compensation insurance policies required by Section 22.2(A).
- (C) The insurance required in Sections 22.2(B), 22.2(C), 22.2(D), 22.2(E) and 22.2(F) must include all of the following:
 - (1) Indemnitees shall be named as additional insureds to the extent of the liabilities assumed by Lessee under this Lease. The coverage provided to Indemnitees as additional insureds must expressly include liability imposed or sought to be imposed upon Indemnitees for the contributory fault or negligence of Indemnitees to the extent that Lessee has assumed such liabilities of Indemnitees under this Lease.
 - (2) A provision that the insurance is primary with respect to all insureds, including additional insureds, and that no other insurance carried by Indemnitees will be considered as contributory insurance for any loss.
 - (3) A cross liability or severability of interest clause which has the effect of insuring that each insured (including additional insureds) is covered as a separate insured.

- 22.4 **Evidence of Insurance.** Upon Lessor's request, Lessee will furnish Lessor a certificate of insurance evidencing the required coverages and/or at Lessor's request, copies of the insurance policies. Lessor's acceptance of such certificates will not constitute a waiver, release or modification of any of the insurance coverages required under this Lease, if the certificates are inconsistent with any of such coverages.
- 22.5 **Deductibles or Self-Insured Retentions.** Lessee is solely responsible for payment of all deductibles or self-insured retentions that are applicable to any Claims made against Indemnitees covered by Lessee's insurance policies. The level of these deductibles or retentions must be reasonable and compatible with that expected of a prudent operator in similar circumstances.
- 22.6 **Waiver of Subrogation for Lessee's Physical Damage Insurance.** Upon Lessor's request, Lessee shall obtain a written waiver of subrogation in favor of Indemnitees from its insurers who provide physical damage insurance with respect to Property used in the performance of Operations.
- 22.7 **Conflict with Applicable Law.** Lessee will not be required to carry the insurance coverages required in this Lease to the extent such coverages conflict with, or are void or otherwise unenforceable under, applicable laws or regulations.

23. COVENANTS RUN WITH THE LAND

The provisions of this Lease will inure to the benefit of and be binding upon the successors and assigns of Lessor and Lessee, subject to the provisions of Section 21. The provisions of this Lease constitute covenants running with the Land.

24. CONFLICT OF INTEREST

24.1 Prohibition. Lessee may not engage in any of the following activities without Lessor's prior written consent:

- (A) Give to or receive from any director, employee or agent of Lessor or any Affiliate of Lessor in connection with this Lease, either of the following:
 - (1) Any gift, entertainment or other benefit of significant cost or value.
 - (2) Any commission, fee or rebate.
- (B) Enter into any business arrangement with any director, employee or agent of Lessor or any Affiliate of Lessor (other than as a representative of Lessor or its Affiliate).

24.2 Reporting Violations and Reimbursement. Lessee shall immediately notify Lessor of any violation of Section 24.1 or of the occurrence of any event which, if it had occurred after the Effective Date, would constitute a violation of Section 24.1. In addition to any other remedies to which Lessor may be legally entitled, Lessee shall reimburse or issue a credit to Lessor equal to the value of the benefit received by or given to the director, employee or agent of Lessor or any Affiliate of Lessor as a consequence of that violation or event.

24.3 Audit. During the term of this Lease and for two years thereafter, any representatives authorized by Lessor may audit the applicable records of Lessee solely for the purpose of determining whether there has been compliance with this Section 24.

24.4 Termination. Lessor may, at its sole option, terminate this Lease with immediate effect for any violation of Section 24.

25. NOTICES

25.1 All notices required or permitted under this Lease must be in writing and delivered by mail or overnight delivery service (postage prepaid) or by hand delivery to the address of the Party receiving the notice set out in the signature page to this Lease. Notice may also be delivered by facsimile sent to the facsimile number of the Party set out in the signature page to this Lease provided that the original notice is promptly sent to the recipient by mail or overnight delivery service (postage prepaid) or by hand delivery. Notices sent by email are ineffective.

25.2 Notices are effective when received by the recipient during the recipient's regular business hours. Notices that do not comply with the requirements of this Lease are ineffective, and do not impart actual or any other kind of notice.

- 25.3 Either Party may change its address for notice purposes, or may designate other addresses for specific purposes, by informing the other Party in writing.
- 25.4 Royalties, rentals and shut-in gas well payments may be delivered to Lessor in the same manner as Notices and will be delivered to Lessor at the following address:

Texaco Downstream LLC
P. O. Box 730436
Dallas, Texas 75373-0436

26. GOVERNING LAW AND RESOLUTION OF DISPUTES

- 26.1 **Governing Law.** This Lease is governed by and interpreted under the laws of the State of Texas, without regard to its choice of law rules, except that the substantive and procedural rules of the Federal Arbitration Act, 9 U.S.C. §§ 1-16 ("the Act") shall govern Section 26.
- 26.2 **Resolution of Disputes.** The Parties shall exclusively and finally resolve any Dispute between them using direct negotiations, mediation and arbitration as set out in Section 26, except as permitted in Section 26.7. A Party who violates this Section 26 shall pay all legal and consulting fees and costs incurred by the other Party in any suit, action, or proceeding to enforce Section 26. While the procedures in this Section 26 are pending, each Party shall continue to perform its obligations under this Lease, unless to do so would be impossible or impracticable under the circumstances.
- 26.3 **Direct Negotiations.** If a Dispute arises, a Party shall initiate the resolution process by giving notice setting out in writing and in detail the issues in Dispute and the value of the Claim to the other Party. If a Party refuses to toll all applicable statutes of limitations and defenses based upon the passage of time while the proceedings in this Section 26.3 are pending, the other Party may file an arbitration proceeding under Section 26.5 in an attempt to preserve its Claim and such proceeding shall be stayed by the arbitrator or arbitrators after appointment so that the Parties may continue efforts to resolve this Dispute as set out in Section 26. A meeting between the Parties, attended by individuals with decision-making authority, must take place within thirty days from the date the notice was sent in an attempt to resolve the Dispute through direct negotiations.
- 26.4 **Mediation.** If the Dispute cannot be settled by direct negotiations within thirty days of initiation of the resolution process, either Party may initiate mediation by giving notice to the other Party. The place of mediation shall be Houston, Texas.
- 26.5 **Arbitration.** If the Dispute is not resolved by mediation within thirty days from the date of the notice requiring mediation, or if the Dispute is unresolved within sixty days from the date of the notice requiring direct negotiations, then the Dispute shall be finally settled by binding arbitration and either Party may initiate such arbitration by giving notice to the other Party. The arbitration shall be conducted in accordance with the International Institute for Conflict Prevention & Resolution ("CPR") Rules, except to the extent of conflicts between the CPR Rules at present in force and the provisions of this Contract, in which event the provisions of this Contract prevail. The CPR is the appointing authority. The place of arbitration shall be Houston, Texas.

26.6 The following provisions shall apply to any arbitration proceedings commenced pursuant to Section 26.5:

- (A) The number of arbitrators shall be one if the monetary value of the Dispute is \$5,000,000 or less. The number of arbitrators shall be three if the monetary value is greater than \$5,000,000.
- (B) The arbitrator or arbitrators must remain neutral, impartial and independent regarding the Dispute and the Parties. If the number of arbitrators to be appointed is one, that arbitrator or the presiding arbitrator if the arbitrators are three, must be a lawyer experienced in the resolution of disputes with experience relating to the issues in dispute.
- (C) The arbitrator has or arbitrators have no authority to appoint or retain expert witnesses for any purpose unless agreed to by the Parties.
- (D) The arbitrator has or arbitrators have the power to rule on objections concerning jurisdiction, including the existence or validity of this arbitration clause and existence or the validity of this Contract.
- (E) All arbitration fees and costs (with the exception of translation costs as specified above) shall be borne equally regardless of which Party prevails. Each Party shall bear its own costs of legal representation and witness expenses.
- (F) The arbitrator is or arbitrators are authorized to take any interim measures as the arbitrator considers or arbitrators consider necessary, including the making of interim orders or awards or partial final awards. An interim order or award may be enforced in the same manner as a final award using the procedures specified below. Further, the arbitrator is or arbitrators are authorized to make pre- or post-award interest at applicable statutory interest rates during the relevant period.
- (G) The arbitrator or arbitrators must render a reasoned award in writing. This award shall be based upon a decision which must detail the finding of fact and conclusions of law on which it rests. The award is final and binding.
- (H) The Dispute will be resolved as quickly as possible. The arbitrator's or arbitrators' award must be issued within three months from completion of the hearing, or as soon as possible thereafter.

26.7 Enforceability.

- (A) The Parties waive irrevocably their right to any form of appeal, review or recourse to any court or other judicial authority, to the extent that such waiver may be validly made.
- (B) Except for proceedings to preserve Property pending determination by the arbitrator or arbitrators or to enforce an award, the mandatory exclusive venue for any judicial proceeding permitted in this Contract is the court of competent jurisdiction in Houston, Texas. The Parties consent to the jurisdiction of these courts and waive any defenses they have regarding jurisdiction.

- (C) Proceedings to enforce judgment entered on an award may be brought in any court having jurisdiction over the person or assets of the non-prevailing Party. The prevailing Party may seek, in any court having jurisdiction, judicial recognition of the award, or order of enforcement or any other order or decree that is necessary to give full effect to the award.

26.8 Confidentiality.

- (A) The Parties agree that any Dispute and any negotiations, mediation and arbitration proceedings between the Parties in relation to any Dispute shall be confidential and will not be disclosed to any third party.
- (B) The Parties further agree that any information, documents or materials produced for the purposes of, or used in, negotiations, mediation or arbitration of any Dispute shall be confidential and will not be disclosed to any third party.
- (C) Without prejudice to the foregoing, the Parties agree that disclosure may be made:
 - (1) In order to enforce any of the provisions of this Contract including without limitation, the Parties agreement to arbitrate, any arbitration order or award and any court judgment.
 - (2) To the auditors, legal advisers, insurers and Affiliates of that Party to whom the confidentiality obligations set out in this Contract shall extend.
 - (3) Where that Party is under a legal or regulatory obligation to make such disclosure, but limited to the extent of that legal obligation.
 - (4) With the prior written consent of the other Party.
- (D) The Parties agree to submit to the jurisdiction of the courts of Houston, Texas, for the purposes of any proceedings to enforce this Section 26.8 and shall prevent any information, documents or materials belonging to a Party from being used or disclosed by that Party for any purpose.

26.9 **Survival.** This Section 26 remains in effect and binding on the Parties after termination or completion of the Contract.

27. **NO THIRD PARTY RIGHTS.** No person who is not a party to this lease has any rights under this lease or may enforce any provision in this lease.

28. **SUBJECT TO OTHER AGREEMENTS; COMPLIANCE**

28.1 This Lease is subject to all agreements of record affecting the Land and to the following the terms of which are incorporated by reference:

- (A) Instruments referenced in Exhibit A.

- (B) Lessee acknowledges and agrees to comply with all of the terms of the instruments referenced in Exhibit A and with the provisions of Exhibits B and C.

29. **GENERAL PROVISIONS**

- 29.1 **Prior Agreements.** Except as provided in Section 28, this Lease comprises the complete and exclusive agreement between the Parties regarding the subject matter of the Lease and supersedes all oral and written communications, negotiations, representations or agreements in relation to that subject matter made or entered into before the Effective Date.
- 29.2 **Counterparts.** This Lease may be executed in any number of counterparts, each of which will be deemed an original of this Lease, and which together will constitute one and the same instrument. Neither Party will be bound to this Lease unless and until both Parties have executed a counterpart.
- 29.3 **Amendments.** No amendment to this Lease is effective unless made in writing referencing this Lease, and signed by authorized representatives of both Parties.
- 29.4 **Severability.** Each provision of this Lease is severable and if any provision is determined to be invalid, unenforceable or illegal under any existing or future law by a court, arbitrator of competent jurisdiction or by operation of any applicable law, this invalidity, unenforceability or illegality does not impair the operation of or affect those portions of this Lease that are valid, enforceable and legal.
- 29.5 **Waiver.** The Parties' failure to pursue remedies for breach of this Lease does not constitute a waiver any breach of this Lease or raise any defense against Claims for breach of this Lease. The waiver or failure to require the performance of any covenant or obligation contained in this Lease or pursue remedies for breach of this Lease does not waive a later breach of that covenant or obligation.

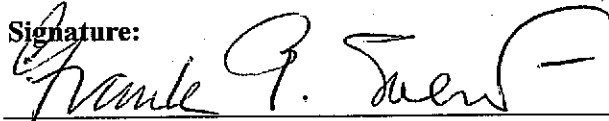
IMPORTANT NOTICE: THIS LEASE CONTAINS PROVISIONS REGARDING INDEMNITIES AND WARRANTIES THAT EXPRESS THE AGREEMENT OF THE PARTIES CONCERNING CLAIMS ARISING OUT OF THIS LEASE.

The Parties have executed this Lease in triplicate as evidenced by the following signatures of authorized representatives of the Parties:

LESSOR:
TEXACO DOWNSTREAM LLC

LESSEE:
CARRIZO OIL & GAS, INC.

Signature:



Name: FRANK G. SOLER

Title: PRESIDENT

Signature:



Name: Andrew R. Agosto

Title: Vice President

ADDRESS FOR NOTICES:

Attn: Land Manager
P.O. Box 36366
Houston, Texas 77236

ADDRESS FOR NOTICES:

1000 Louisiana Street, Suite 1500
Houston, Texas 77002

Attention: Land Manager

Telephone: (281) 561-3507

Facsimile: (281) 561-4874

Attention: Vice President - Land

Telephone: (713) 328-1000

Facsimile: (713) 328-1035

ACKNOWLEDGMENTS

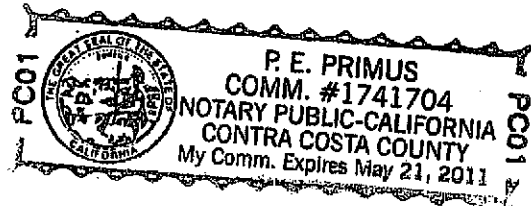
State of California
County of Contra Costa

On June 23, 2009 before me, P. E. Primus, Notary Public, personally appeared Frank G. Soler who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature P. E. Primus (Seal)



STATE OF TEXAS §

§

COUNTY OF HARRIS §

This instrument was acknowledged before me on June 29, 2009, by Andrew R. Agosto, Vice President for Carrizo Oil & Gas, Inc., a Texas corporation, on behalf of said corporation.

Brandi Renee Cruse
Notary Public in and for the State of Texas

My Commission Expires:

4-12-11



EXHIBIT A – DESCRIPTION OF THE LAND SUBJECT TO THIS LEASE

Attached to and made a part of that certain Oil and Gas Lease dated June 18, 2009, by and between Texaco Downstream LLC, as Lessor, and Carrizo Oil & Gas, Inc., as Lessee

1.773 acres of land, more or less, being Lot 31 out of the John Stephens Addition to the City of Arlington, Tarrant County, Texas, more particularly described that certain Warranty Deed dated April 10, 1984, by and between Mary Lucy Jones et al, as grantor, and Texaco Inc., as grantee, and recorded in Volume 7798, Page 151, of the Deed Records of Tarrant County, Texas, and in that certain Special Warranty Deed dated April 18, 1984, by and between The Philadelphia National Bank, as grantor, and Texaco Inc., as grantee, and recorded in Volume 7810, Page 1085, of the Deed Records of Tarrant County, Texas.

END OF EXHIBIT A

EXHIBIT B -- WELL INFORMATION REQUIREMENTS

Attached to and made a part of that certain Oil and Gas Lease
dated June 18, 2009, by and between
Texaco Downstream LLC, as Lessor,
and Carrizo Oil & Gas, Inc., as Lessee

To the extent required by Section 11 of the Lease, Lessee acknowledges and agrees to provide any Well Information described below that Lessee acquires:

- MWD logs
- Gamma ray logs
- LAS file per log type and logging company image files
- Directional survey/gyro surveys
- LAS format directional survey/gyro surveys
- Daily drilling reports

Send all Well Information to the following contact:

Chevron U.S.A. Inc.
11111 S. Wilcrest
Houston, TX 77099

Attn: Norma Blake

END OF EXHIBIT B

EXHIBIT C -- Environmental Stipulations

Attached to and made a part of that certain Oil and Gas Lease dated June 18, 2009, by and between Texaco Downstream LLC, as Lessor, and Carrizo Oil & Gas, Inc., as Lessee.

1. LESSEE'S AGREEMENT TO COMPLY.

Subject to Section 8.1 above, Lessee acknowledges and agrees to comply with all of the terms and conditions set forth below:

- 1.1 Lessee will use, and will require its contractors, employees and agents to use environmentally sound materials and practices in its operations on the Land so as to minimize or eliminate wastes, hazards and impacts on the environment. These practices include but are not limited to the following:
- 1.2 Lessee will assess the material available for a given purpose and will select the least toxic option available. Affected materials include, but are not limited to, solvents, paints, paint thinners, boiler chemicals, thread compounds, cleaners and mud products. Material Safety Data Sheets for each product provide information to determine its relative toxicity.
- 1.3 Pipe dope containing lead or zinc will be applied in such a manner to minimize the total volume required. Low toxicity compounds will be used on drill pipe. No muds or pipe dope containing chrome will be brought onto the Land.
- 1.4 Lessee will participate in a recycling program for all wastes generated where recycling is an option. The recycling program will include all used oils, solvents, drums, etc.
- 1.5 Lessee will remove any unused products from the Land. Unused commercial products will not be mixed with domestic or oilfield wastes. No waste materials will be put in any reserve pits or flare pits (except drilling and workover fluids where allowed by law).
- 1.6 All trash will be removed from the Land and all pits on the drilling location will be properly closed in accordance with applicable regulations, as soon as possible following the drilling of any well.
- 1.7 Lessee will practice water conservation measures, including the use of high pressure washdown guns and restrictor nozzles on water hoses.
- 1.8 Lessee will provide dikes, ditches, or other methods of containment for all fuel and oil containers. Any leakage or spillage will be promptly reported to the appropriate authorities as required by statute, rule or regulation, and to the appropriate representative of Lessor. Lessee will have a Spill Prevention, Control and Countermeasure Plan in effect as required by the Code of Federal Regulations Title 40, Part 112.
- 1.9 Lessee will adopt practices for minimization of volume and toxicity of wastes for all waste streams.
- 1.10 Lessee will handle and dispose of any and all solid waste, including hazardous waste, as defined in Code of Federal Regulations Title 40, Parts 261.2 and 261.3, resulting from the performance of its operations on the Land in accordance with all applicable federal, state,

tribal, and local statutes, regulations, ordinances and requirements. Lessee will own all waste generated in connection with operations by Lessee or for Lessee's account on the Land. Upon request, Lessee will furnish proof to Lessor of proper handling and disposal of wastes generated by Lessee or for Lessee's account.

- 1.11 Lessee will dispose of or discharge any wastes generated in its operations on the Land or land pooled with the Land (including but not limited to produced water, drilling fluids and other associated wastes) in accordance with applicable local, state, tribal and federal laws and regulations. Lessee will keep accurate records of the types, amounts and location of wastes which are disposed of on-site and off-site. Upon termination of this Lease as to all or any portion of the Land, Lessee will take whatever additional remedial action on the Land may be necessary to meet all local, state, tribal and federal requirements directed at protecting human health and the environment in effect at that time. Lessee will provide Lessor with access to the records of the types, amounts and location of wastes which are disposed of on-site and off-site. The provisions of this article will survive termination of this Lease.
- 1.12 Failure to comply with the provisions of this Exhibit will be considered a breach of the Lease and may result in termination of the Lease and Lessee's expulsion from the Land as well as any other remedies allowed under the Lease or at law or in equity.

END OF EXHIBIT C